

CITY OF McLOUTH, KANSAS

STATUTORY BASIS FINANCIAL STATEMENTS
For the year ended December 31, 2008

And

INDEPENDENT AUDITORS' REPORT

Long CPA, PA
A Professional Association
Certified Public Accountants

CITY OF MCLOUTH, KANSAS

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Long CPA, PA

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the financial statements of the individual funds of the City of McLouth, Kansas, as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonable determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2008, or the changes in its financial position for the year then ended.

In our opinion the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the City, as of December 31, 2008, and its cash receipts and expenditures, budgetary comparisons, and changes in long-term debt and long-term debt maturities for the year then ended, on the basis of accounting described in Note 1.

Long CPA, PA

Long CPA, PA
A Professional Association
Certified Public Accountants

July 20, 2009

CITY OF McLOUTH, KANSAS
Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2008

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:							
General Funds							
General	\$ 139,939	0	\$ 321,624	\$ 388,219	\$ 73,344	0	\$ 73,344
Special Revenue Funds							
Law Enforcement	8,595	0	8,863	3,042	14,416	0	14,416
Fire Equipment	1,889	0	11,082	11,074	1,897	0	1,897
Special Highway	26,859	0	23,625	0	50,484	0	50,484
Library	2,031	0	21,137	20,379	2,789	0	2,789
Capital Improvement	-	0	110,000	0	110,000	0	110,000
Equipment reserve	7,142	0	0	0	7,142	0	7,142
Debt Service Funds							
Bond & Interest	10,298	0	8,381	13,575	5,104	0	5,104
Proprietary Type Funds:							
Water Utility	213,020	0	231,541	276,349	168,212	0	168,212
Sewer Utility	234,082	0	218,240	194,197	258,125	0	258,125
Gas Utility	260,637	0	385,420	388,283	257,774	0	257,774
Total Reporting Entity	\$ 904,492	0	\$ 1,339,913	\$ 1,295,118	\$ 949,287	0	\$ 949,287
Composition of Cash							
					Checking Accounts		\$ 458,145
					Savings Accounts		260,771
					Petty Cash		
					Certificates of Deposit		232,363
					Total Cash		951,279
					Agency Funds per Statement 4		1,992
					Total Reporting Entity (Excluding Agency Funds)		\$ 949,287

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
Summary of Expenditures - Actual and Budget
For the Year Ended December 31, 2008

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustments to Comply with Legal Max</u>	<u>Adjustments for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Favorable (Unfavorable)</u>
Governmental Type Funds						
General Funds						
General	\$ 670,709	\$ 0	\$ 0	\$ 670,709	\$ 388,219	\$ 282,490
Special Revenue Funds						
Law Enforcement	30,131	0	0	30,131	3,042	27,089
Fire Equipment	21,196	0	0	21,196	11,074	10,122
Library	22,396	0	0	22,396	20,379	2,017
Special Highway	22,127	0	0	22,127	0	22,127
Debt Service Funds						
Bond and Interest	20,550	0	0	20,550	13,575	6,975
Proprietary Type Funds						
Water utility	441,162	0	0	441,162	276,349	164,813
Sewer utility	327,030	0	0	327,030	194,197	132,833
Gas utility	551,140	0	0	551,140	388,283	162,857

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
GENERAL FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2008

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 183,472	\$ 192,162	\$ (8,690)
Delinquent tax	3,008	7,000	(3,992)
Motor vehicle tax	24,962	26,768	(1,806)
RV tax	237	315	(78)
16/20M vehicle tax	323	370	(47)
Intergovernmental revenue	16,096	0	16,096
Sanitation		30,000	(30,000)
Sales tax	39,089	40,000	(911)
Licenses, rent, permits			0
Municipal court			0
Interest income			0
Miscellaneous revenues	54,437	55,000	(563)
Operating transfers			0
Total Cash Receipts	<u>321,624</u>	<u>351,615</u>	<u>(29,991)</u>
EXPENDITURES			
General government	294,331	120,000	(174,331)
Street lighting			0
Sanitation	24,584	30,000	5,416
Public safety		90,000	90,000
Highways and streets	37,376		(37,376)
Recreation and culture		60,000	60,000
Capital outlay	31,928	310,709	278,781
Operating transfers		60,000	60,000
Adjustment for qualifying budget credits			0
Total Expenditures	<u>388,219</u>	<u>\$ 670,709</u>	<u>\$ 282,490</u>
Receipts Over (Under) Expenditures	(66,595)		
Unencumbered Cash, Beginning	139,939		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 73,344</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
LAW FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2008

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 6,936	\$ 7,671	\$ (735)
Delinquent tax	154	250	(96)
Motor vehicle tax	1,732	1,100	632
RV tax	16	13	3
16/20M vehicle tax	25	15	10
Intergovernmental revenue			0
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
Total Cash Receipts	<u>8,863</u>	<u>9,049</u>	<u>(186)</u>
EXPENDITURES			
General administration			0
Capital outlay	3,042	30,131	27,089
Operating transfers			0
Adjustment for qualifying budget credits			0
Total Expenditures	<u>3,042</u>	<u>\$ 30,131</u>	<u>\$ 27,089</u>
Receipts Over (Under) Expenditures	5,821		
Unencumbered Cash, Beginning	8,595		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 14,416</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
FIRE EQUIPMENT FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2008

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 9,734	\$ 10,228	\$ (494)
Delinquent tax	171	350	(179)
Motor vehicle tax	1,158	1,466	(308)
RV tax	13	17	(4)
16/20M vehicle tax	6	20	(14)
Fuel tax			0
Sales tax			0
Bond proceeds			0
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
Total Cash Receipts	<u>11,082</u>	<u>12,081</u>	<u>(999)</u>
EXPENDITURES			
General government			0
Public safety	2,889	12,996	10,107
Capital outlay			0
Lease purchase	8,185	8,200	15
Operating transfers			0
Adjustment for qualifying budget credits			0
Total Expenditures	<u>11,074</u>	<u>\$ 21,196</u>	<u>\$ 10,122</u>
Receipts Over (Under) Expenditures	8		
Unencumbered Cash, Beginning	1,889		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 1,897</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
LIBRARY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2008

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 18,285	\$ 19,177	\$ (892)
Delinquent tax	296	400	(104)
Motor vehicle tax	2,502	2,749	(247)
RV tax	24	32	(8)
16/20M vehicle tax	30	38	(8)
Federal grants			0
State aid/grants			0
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
Total Cash Receipts	<u>21,137</u>	<u>22,396</u>	<u>(1,259)</u>
EXPENDITURES			
General government			0
Recreation and Culture	20,379	22,396	2,017
Capital outlay			0
Operating transfers			0
Adjustment for qualifying budget credits			0
Total Expenditures	<u>20,379</u>	<u>\$ 22,396</u>	<u>\$ 2,017</u>
Receipts Over (Under) Expenditures	758		
Unencumbered Cash, Beginning	2,031		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 2,789</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
BOND AND INTEREST FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2008

	<u>Actual</u>	<u>Budget</u>	<u>Variance- Favorable (Unfavorable)</u>
CASH RECEIPTS			
Taxes and Shared Revenue			
Ad valorem property tax	\$ 7,302	\$ 7,124	\$ 178
Delinquent tax	122	150	(28)
Motor vehicle tax	938	1,796	(858)
RV tax	10	21	(11)
16/20M vehicle tax	9	25	(16)
Intergovernmental revenues			0
Miscellaneous revenues			0
Operating transfers			0
Total Cash Receipts	<u>8,381</u>	<u>9,116</u>	<u>(735)</u>
EXPENDITURES			
General administration			0
Debt service	13,575	20,550	6,975
Operating transfers			0
Adjustment for qualifying budget credits			0
Total Expenditures	<u>13,575</u>	<u>\$ 20,550</u>	<u>\$ 6,975</u>
Receipts Over (Under) Expenditures	(5,194)		
Unencumbered Cash, Beginning	10,298		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 5,104</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
SPECIAL HIGHWAY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2008

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Gas tax	\$ 23,625	\$	\$ 23,625
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>23,625</u>	<u>0</u>	<u>23,625</u>
Total Cash Receipts			
	<u>23,625</u>	<u>0</u>	<u>23,625</u>
EXPENDITURES			
Street repair and maintenance		22,127	22,127
Capital outlay			0
Debt service			0
Operating transfers			0
Adjustment for qualifying budget credits			0
	<u>0</u>	<u>22,127</u>	<u>22,127</u>
Total Expenditures			
	<u>0</u>	<u>22,127</u>	<u>22,127</u>
Receipts Over (Under) Expenditures	23,625		
Unencumbered Cash, Beginning	26,859		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	\$ <u>50,484</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
WATER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2008

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 231,541	\$ 244,000	\$ (12,459)
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
Total Cash Receipts	<u>231,541</u>	<u>244,000</u>	<u>(12,459)</u>
EXPENDITURES			
Operations and maintenance	167,322	368,762	201,440
Capital outlay			0
Debt service	72,360	72,400	40
Operating transfers	36,667		(36,667)
Adjustment for qualifying budget credits			0
Total Expenditures	<u>276,349</u>	<u>\$ 441,162</u>	<u>\$ 164,813</u>
Receipts Over (Under) Expenditures	(44,808)		
Unencumbered Cash, Beginning	213,020		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 168,212</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
SEWER UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2008

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 218,240	\$ 220,000	\$ (1,760)
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
	<u>218,240</u>	<u>220,000</u>	<u>(1,760)</u>
Total Cash Receipts	<u>218,240</u>	<u>220,000</u>	<u>(1,760)</u>
EXPENDITURES			
Operations and maintenance	52,010	221,430	169,420
Capital outlay			0
Debt service	105,521	105,600	79
Operating transfers	36,666		(36,666)
Adjustment for qualifying budget credits			0
	<u>194,197</u>	<u>\$ 327,030</u>	<u>\$ 132,833</u>
Total Expenditures	<u>194,197</u>	<u>\$ 327,030</u>	<u>\$ 132,833</u>
Receipts Over (Under) Expenditures	24,043		
Unencumbered Cash, Beginning	234,082		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 258,125</u>		

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
GAS UTILITY FUND
Statement of Cash Receipts and Expenditures - Actual and Budget
For the Year Ended December 31, 2008

	Actual	Budget	Variance- Favorable (Unfavorable)
CASH RECEIPTS			
Charges for services	\$ 385,420	\$ 430,000	\$ (44,580)
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
Total Cash Receipts	<u>385,420</u>	<u>430,000</u>	<u>(44,580)</u>
EXPENDITURES			
Operations and maintenance	351,616	548,617	197,001
Capital outlay			0
Debt service		2,523	2,523
Operating transfers	36,667		(36,667)
Adjustment for qualifying budget credits			0
Total Expenditures	<u>388,283</u>	<u>\$ 551,140</u>	<u>\$ 162,857</u>
Receipts Over (Under) Expenditures	(2,863)		
Unencumbered Cash, Beginning	260,637		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 257,774</u>		

The notes to financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
 ANY NONBUDGETED FUNDS
 Statement of Cash Receipts and Expenditures
 For the Year Ended December 31, 2008

	<u>Capital Improvement</u>	<u>Equipment Reserve</u>
CASH RECEIPTS		
Federal grants	\$	\$
State aid/grants		
City appropriation		
Charges for services		
Interest income		
Miscellaneous revenues		
Operating transfers	<u>110,000</u>	
Total Cash Receipts	<u>110,000</u>	<u>0</u>
EXPENDITURES		
Capital outlay		
Debt service		
Operating transfers		
Adjustment for qualifying budget credits		
Total Expenditures	<u>0</u>	<u>0</u>
Receipts Over (Under) Expenditures	110,000	0
Unencumbered Cash, Beginning	-	7,142
Prior Year Cancelled Encumbrances	<u>0</u>	<u>0</u>
Unencumbered Cash, Ending	<u>\$ 110,000</u>	<u>\$ 7,142</u>

The notes to the financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS
EXPENDABLE TRUST FUND
Statement of Cash Receipts and Expenditures
For the Year Ended December 31, 2008

<u>Fund</u>	<u>Beginning Cash Balance</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	<u>Ending Cash Balance</u>
Community Medical	\$ <u>1,948</u>	\$ <u>44</u>	\$ <u></u>	\$ <u>1,992</u>

The notes to financial statements are an integral part of this statement.

CITY OF McLOUTH, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Financial Reporting Entity

The City of McLouth is a municipal corporation governed by an elected six member council. The City as an entity has been defined to include, on a combined basis, (a) the City of McLouth, Kansas (b) organizations for which the City of McLouth, Kansas is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the City of McLouth, Kansas are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City for the year 2008:

Governmental Funds

General Fund - To account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to be expended for specified purposes.

Proprietary Funds

Enterprise Funds – to account for operations that are financed and operated in a manner similar to private business enterprises—where stated intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges—or where periodic determinations of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF McLOUTH, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Departure from Generally Accepted Accounting Principles (GAAP)

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursement, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principle and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with United States generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

CITY OF McLOUTH, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Reimbursed Expenses

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

Budgetary Information

Kansas Statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenues other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. No budgets amendments were noted for the current year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

CITY OF McLOUTH, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information (continued)

All legal annual operating budgets are prepared using the modified accrual basis of accounting. Revenues are recognized when measurable and available to finance current year expenditures. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds, trust funds and some special revenue funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

NOTE 2 – Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the government. The statute requires banks eligible to hold the government's funds have a main or branch bank in the county in which the government is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The government has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the government's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The government has no investment policy that would further limit its investment choices.

State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

CITY OF McLOUTH, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments(Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. State statutes require the government's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2008.

At December 31, 2008, the government's carrying amount of deposits was \$ 949,287 and the bank balance was \$ 957,195. The bank balance was held by the bank resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance and the balance was collateralized with securities held by the pledging financial institutions' agents in the government's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 3 – Defined Benefit Pension Plan

Plan Description – The City of McLouth, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

CITY OF McLOUTH, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Defined Benefit Pension Plan(Continued)

Funding Policy – K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contributions rate be determined annually based on the results of an annual actuarial valuation. KPERS are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for 2008 was 5.81%. The City of McLouth, Kansas employer contributions to KPERS for the years ended December 31, 2008, 2007, and 2006, were \$ 0, \$ 4,357, and \$8,903, respectively. The amount for the prior two years was paid as required. The contribution for the year ended December 31, 2008 was paid in March of 2009.

NOTE 4 – Risk Management

The City is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 5 – Compliance with Kansas Statutes

The clerk did not maintain a record of each fund's indebtedness during the year. The amount of cash available in each fund is required to be maintained during the year. This is a violation of K.S.A. 10-1117.

The treasurer did not balance the funds in the bank to the cash summary during the year. The treasurer is required to maintain records to show the amount of money in each fund. This is a violation of K.S.A. 10-1118.

CITY OF McLOUTH, KANSAS

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – Compensated Absences

Sick leave is available at the rate of one day per month. The maximum amount of sick leave is 60 days. Accrued sick leave is not paid upon termination. Vacation leave is available for full time employees and is based on the number of years of service. One week of vacation is available after one year of service. Two weeks of vacation are available after two years of service. After three years of service, one day per year is added to the two weeks earned. The maximum amount of vacation available is three weeks per year. Payment is made to terminated employees for unused vacation leave. The city has not computed or recorded this potential liability.

NOTE 7 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

NOTE 8 – Long Term Debt

The schedule of long term debt and current maturities for the next five years is detailed in the following schedule.

CITY OF McLOUTH, KANSAS
Statement of Changes in Long-Term Debt
For the Year Ended December 31, 2008

Note 8 - Long Term Debt

Changes in long-term liabilities for the City for the year ended December 31, 2008 were as follows:

Issue	Interest Rate	Date of Issue	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
General Obligation Bonds										
2005 Issue	3.75%-5.0%	6/1/05	\$ 100,000	10/1/15	\$ 80,000	\$	\$ 10,000	\$ (10,000)	\$ 70,000	\$ 3,575
Leases										
Fire truck	4.50%	4/25/02	48,231	4/25/10	22,500		7,172	(7,172)	15,328	1,013
Backhoe	4.85%	8/18/05	43,876	2/25/10	27,551		8,756	(8,756)	18,795	1,337
KDHE Loan:										
Kansas Department of Health and Environment (Water Improvements)	4.31%	1/1/89	1,132,133	2/1/19	650,754		44,790	(44,790)	605,964	25,331
Kansas Department of Health and Environment (Sewer Improvements)	3.57%	4/5/00	1,702,238	9/1/21	1,154,722		64,871	(64,871)	1,089,851	37,803
Total Long Term Debt					\$ 1,935,527	\$ 0	\$ 135,589	\$ (135,589)	\$ 1,799,938	\$ 69,059

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	2009	2010	2011	2012	2013	2013-2017	2018-2022	Total
Principal								
General Obligation Bonds	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 20,000	\$	\$ 70,000
Special Assessment Bonds								0
Certificates of Participation								0
Capital Leases	16,676	17,447						34,123
KDHE Loan - Water	54,931	57,324	59,821	62,427	65,147	264,692	41,622	605,964
KDHE Loan - Sewer	76,308	79,056	81,904	84,854	87,910	489,390	190,429	1,089,851
Temporary Notes								0
Total Principal	157,915	163,827	151,725	157,281	163,057	774,082	233,051	1,799,938
Interest								
General Obligation Bonds	3,180	2,775	2,350	1,905	1,905	2,955		15,070
Special Assessment Bonds								0
Certificates of Participation								0
Capital Leases	1,603	816						2,419
KDHE Loan - Water	27,663	25,464	23,169	20,775	18,276	21,805	824	137,976
KDHE Loan - Sewer	40,455	37,899	35,250	32,507	29,665	101,974	11,227	288,977
Temporary Notes								0
Total Interest	72,901	66,954	60,769	55,187	49,846	126,734	12,051	444,442
Total Principal and Interest	\$ 230,816	\$ 230,781	\$ 212,494	\$ 212,468	\$ 212,903	\$ 900,816	\$ 244,102	\$ 2,244,380